

# FOREIGN POLICY REPORTS

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## U.S. Aid to Britain—

1. *What have we supplied?*
2. *What else does Britain need?*
3. *What more can we provide?*
4. *What risks and difficulties are involved?*

BY J. F. GREEN, D. H. POPPER, and J. C. deWILDE

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# U.S. Aid to Britain

BY J. F. GREEN, D. H. POPPER, AND J. C. DEWILDE

As the third Roosevelt Administration takes office in January 1941, the central problem in American public affairs is the question of this country's relation to the second World War—more specifically, the degree of assistance the United States can or should extend to Britain. Support for the British cause is not in itself a major issue. It was endorsed by the platforms of both political parties, and has been approved by overwhelming popular sentiment as canvassed by public opinion polls. What is in dispute is the extent of United States aid; and this, in turn, can be rationally determined only if the purpose, the means, and the dangers of such aid are made clear. If Britain is to be helped merely so that we may gain time to strengthen our own hemisphere defenses, it can be argued that the Administration should take no action that might create a serious risk of involvement in the European conflict, no matter how grave Britain's position may become.<sup>1</sup> If, on the other hand, it is believed that a British victory is vital to American security or the survival of democratic institutions, it can be maintained that further measures in support of Britain should be undertaken even though they may be regarded by the Axis powers as acts of war.

The need for a decision on this fundamental point becomes more and more pressing as Britain feels the full weight of Nazi air and submarine attacks on its cities and shipping. So vigorous is the German onslaught that some observers foresee a great crisis about March 1941, when Hitler is expected to set in motion the forces he has been mustering for final subjugation of the British Isles. Speed is therefore essential if further aid from this country is to prove effective. In general, speed cannot be attained without a strong lead by the President, nor without Congressional action to remove existing legislative obstacles. Hitherto the British have paid in full—in cash or in advantages at least equivalent to those they have gained—for all the assistance they have received, with the exception of humanitarian contributions. It is not the purpose of this report to advocate the continuance

of this or any other policy, but merely to explore the possibility of further action if it is decided to increase aid to Britain.

Under the pressure of wartime exigencies, Britain has turned increasingly to the United States for commodities and articles needed to prosecute the struggle. Between September 1939 and August 1940, United States exports to British Commonwealth countries amounted to \$1,739,733,000, or 44.3 per cent of all American export trade during that period. Great Britain alone accounted for \$779,974,000 of this sum, and Canada for \$622,583,000.<sup>2</sup> In July, August and September 1940, after the collapse of France, over one-third of all American exports by value were shipped to the United Kingdom, with almost two-thirds sold to the Empire as a whole.<sup>3</sup> As war production supplanted peace-time economic activity, moreover, the character of British Empire purchases in the American market was sharply altered. In general, British imports of agricultural products and luxury items from the United States have been cut to the bone, being replaced by large orders of a relatively small number of materials useful in war. During August 1940, 95 per cent of all American exports of airplanes and parts, 90 per cent of firearms, ammunition and explosives, 69 per cent of iron and steel semi-manufactures, and 57 per cent of metals and manufactures including iron and steel products were shipped to five British countries—Great Britain, Canada, British India, Australia and the Union of South Africa.<sup>4</sup>

The supply of munitions to the Allies became possible only when Congress abandoned the arms embargo provisions of American neutrality legislation, on November 4, 1939.<sup>5</sup> With this obstacle removed, the United States was able in June 1940 to transfer to the British, through private American intermediaries, approximately 600,000 rifles, 80,000 machine guns, and 800 75-mm. field

1. Cf. statement of General Robert E. Wood, *New York Herald Tribune*, December 12, 1940.

2. U.S. Department of Commerce, *Press Release*, October 24, 1940.

3. *Ibid.*, and *Press Release*, October 31, 1940.

4. *Ibid.*, October 29, 1940.

5. Cf. D. H. Popper, "American Neutrality and Maritime Rights," *Foreign Policy Reports*, January 1, 1940.

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guns of British and French type, as well as a large supply of ammunition.<sup>6</sup> This equipment consisted entirely of surplus World War stocks stored by the Army for emergency use. Under a similar procedure, the Army and Navy also turned over to the manufacturers for sale to Britain about 240 obsolescent planes, principally attack and dive bombers. In September 1940, after approval by General George C. Marshall, Army Chief of Staff, some 229 World War light tanks no longer in service were sold to Canada, for training purposes.

Repeal of the arms embargo, moreover, permitted American producers to sell aircraft to the Allies on a cash-and-carry basis. Shipments to Britain became numerically important only with the French defeat, when the British purchasing commission took over unfilled French orders. Between the beginning of September 1939 and the end of June 1940, 940 aircraft were exported to France, while only 292 were shipped to Britain, 95 to Canada, and 123 to other British territories. After June 1940 deliveries to Britain rapidly increased, rising to a peak of 278 in August. In the 14 months ending in October 1940, exports to all countries totaled 3,334 airplanes, of which 1,056 went to Britain, 427 to Canada, and 142 to other British areas. In October alone, 177 planes were shipped to Britain, 102 to Canada, and 8 to other British territories, out of a total of 335 aircraft exported.<sup>7</sup>

Information regarding the proportions in which the various types of planes are being exported is not available, but press reports have referred to orders for all the principal combat types—pursuit ships; attack, dive, medium and heavy bombers; and observation and patrol craft—in addition to new and used transport planes and trainers.<sup>8</sup> Except for the vaunted Lockheed Hudsons employed by the British Coastal Command and in the Mediterranean for reconnaissance, and the North American Harvard advanced trainers, little is known of the utilization of American military planes. The British have received, at depots in this country, quantities of the most modern American planes,

6. Data of Committee to Defend America by Aiding the Allies, October 7, 1940.

7. U.S. Department of Commerce figures, from *Aeronautical World News*, October 1, 1939-September 30, 1940; "U.S. Foreign Trade during the First Year of the European War" (Processed, October 20, 1940); "U.S. Foreign Trade in October," November 26, 1940.

8. For information on deliveries of heavy bombers of the "flying fortress" type to the British, and the Roosevelt Administration's "rule of thumb" for an even division of American aircraft output between Britain and the United States, cf. p. 249. On November 29, 1940 it was announced that 144 Vultee pursuit ships, originally ordered by the Swedish government, would be sold to Canada when completed, inasmuch as the United States government had refused to issue a license permitting their export to Sweden. *The New York Times*, November 30, 1940.

notably Curtiss P-40 (Tomahawk) pursuit ships, Douglas DB-7 (Boston) attack bombers, Consolidated B-24 heavy bombers and Boeing B-17-C "flying fortresses."<sup>9</sup> Unspecified numbers of the first two models have reached Britain, but they have not yet been reported in action.<sup>10</sup> There is some foundation for the statement that many of our planes lack protective armor and self-sealing gasoline tanks, and are too lightly armed for combat against German units.<sup>11</sup> It must be remembered, however, that a high proportion of the American planes already delivered are not of the latest model, and that some were designed for use under conditions other than those encountered in Britain's air war.

Cargo vessels, too, have been sold to the British. With the approval of the United States Maritime Commission, the following transfers of ships to belligerents took place between September 1, 1939 and December 23, 1940:<sup>11a</sup>

To	Number of Ships	Gross Tonnage
Britain	132	470,908
Canada	43	61,617
France	19	49,229
Belgium	9	68,677
Italy†	3	9,275
Greece†	10	42,112

†Vessels transferred before country became a belligerent.

In accordance with American maritime policy, the vessels sold to foreign interests were, in general, old ships, many of which had been replaced by more modern tonnage. Also, the 50 destroyers turned over to Britain in return for leases on naval and air base sites in the Western Hemisphere were over-age, World War type craft. This transaction was concluded on September 2, 1940, and complete delivery was effected in the course of the succeeding weeks.

## BRITAIN'S PRINCIPAL NEEDS

It is necessary, before discussing the possible extent of American aid, to estimate Britain's principal needs in the immediate future under the following categories: industry, food, ships, money and men. The fall of France, Germany's conquest of Western Europe and its hegemony in the Balkans left Britain to fight alone under serious disadvantages. Not only had Germany gained control of the raw material and industrial resources

9. Parentheses refer to British names for planes.

10. Statement of Air Commodore G. C. Pirie, British air attaché at Washington, in *PM* (New York), December 16, 1940.

11. *Christian Science Monitor* (Boston), December 13, 1940.

11a. Data of U.S. Maritime Commission. On December 18 the Maritime Commission accepted the bids of agents for British interests, for the purchase of 16 additional ships of 147,526 dead-weight (not gross) tons from the Commission's laid-up fleet.

of most of the Continent, but it had secured many far-flung bases from which to attack Britain's domestic production and maritime communications. No statistics are available for comparing accurately the present economic strength of the two chief belligerents, and the damage done by the incessant air raids. While Germany's air attack on London in August and September undoubtedly damaged both secondary industries and communications, it was probably not until the November bombings of Coventry, Birmingham and other Midland areas that Britain's heavy industries, armament factories and ports began to be seriously affected.

**COAL, IRON AND STEEL.** While Britain's coal supplies are said to be adequate, the iron and steel industry, with a normal output only half that of German production, is vulnerable to aerial bombardment and dependent on imports of iron ore and scrap. British steel production, believed to have approached its maximum capacity of 14,000,000 tons annually last summer, falls far short of domestic requirements, even with drastic curtailment of both civilian consumption and exports. The need for imports of steel from the United States, which have averaged about 500,000 tons in recent months, probably increased considerably after the large-scale air raids on the Midlands, and may conceivably become acute in 1941. Although the British Dominions and India, with an annual capacity of over 3,500,000 tons, are more nearly self-sufficient than in the World War, they too depend in varying degree on imports. Canada in recent months has imported more than 100,000 tons a month from the United States. Following the loss of European sources of iron ore, Britain increased its domestic production by 50 per cent (to perhaps 20,000,000 tons annually), expanded its imports from Spain and North Africa, and utilized every available source of iron and steel scrap.<sup>12</sup> Importation of American scrap, nearing 500,000 tons monthly, is limited only by problems of transport and storage.<sup>13</sup>

**OIL.** Since Britain is normally compelled to import almost all of its petroleum, maintenance of wartime supplies is largely a question of finance, shipping and rationing.<sup>14-15</sup> Potentially the most serious problem is that of shipping facilities, since a large portion of Britain's petroleum imports have to be transported from distant points, as indicated by the sources of its 1938 imports, totaling 11,200,000 metric tons: Venezuela (via Curaçao and Aruba),

38 per cent; Iran, 20 per cent; United States, 17.5 per cent; Trinidad, 6.5 per cent; Iraq, 4.5 per cent; Rumania, 3 per cent; U.S.S.R., 2.5 per cent. Unless shipping losses become much heavier, however, Britain is said to have adequate tanker tonnage at its disposal, totaling about 5,400,000 gross tons—United Kingdom 2,672,000 tons; British Dominions, 400,000 tons; and the remainder in Norwegian and Netherlands accessions.<sup>16</sup> In addition, 9 United States tankers have been transferred since the outbreak of war to Panamanian registry and thus made available to Britain.<sup>17-18</sup>

**OTHER MINERALS.** Because of the absence of detailed information, it is more difficult to ascertain Britain's position regarding copper, bauxite (source of aluminum), lead, zinc and other strategic minerals. Britain, however, manufactured only 25,000 metric tons of ingot aluminum in 1938, in contrast to its domestic consumption of 65,000 metric tons, and hence depended heavily on imports, chiefly from Canada, Switzerland and Norway.<sup>19</sup> After the fall of France had given the Axis control of over half the world bauxite supply, the Ministry of Aircraft Production, headed by Lord Beaverbrook, warned of a serious shortage of aluminum and made a dramatic appeal for all available household pots and pans. The Board of Trade subsequently prohibited the sale of aluminum ware.<sup>20</sup> The British government has purchased the entire output of the British Aluminum Company and the Aluminum Company of Canada, and is believed to be securing large aluminum supplies in the United States.<sup>21</sup>

**INDUSTRIAL PRODUCTION.** Statistics concerning industrial production are almost entirely lacking, since factory output and air raid damage are carefully guarded military secrets. British officials admit that industrial production, which was rapidly accelerated after the fall of France, has been hampered by aerial bombardment, while declining to indicate the nature or extent of the damage.<sup>22</sup> Reduc-

16. *Ibid*; *Daily Telegraph* (London), July 27, 1940.

17-18. U.S. Maritime Commission, *Statement Showing Vessels Approved for Transfer to Foreign Ownership and/or Registry*, October 26, 1939 through October 25, 1940 (mimeographed).

19. *The Mineral Industry: Its Statistics, Technology and Trade During 1938* (New York, McGraw-Hill, 1939), p. 15.

20. *Manchester Guardian*, October 28, 1940.

21. During the first year of war American exports of aluminum to the United Kingdom totalled 42,696,000 pounds, valued at \$11,749,000. U.S. Department of Commerce, *Press Release*, October 20, 1940. These exports were offset to a considerable extent, however, by United States imports of Canadian aluminum.

22. Mr. Arthur Greenwood, Minister Without Portfolio in the War Cabinet, stated in the House of Commons on November 27, 1940 that the air raids had retarded the "expanding progress" in industrial output, and admitted that it would take Britain two years more, with full assistance from the United States, to reach its potential peak of war production. *New York Herald Tribune*, November 28, 1940.

12. *Manchester Guardian*, September 25, 1940.

13. *The New York Times*, October 3, 1940.

14-15. For a detailed analysis, cf. *Bulletin of International News*, October 5, 1940.



tion of industrial output results not only from direct bomb damage, but also from loss of time during alarms and dislocation of civilian life.

In the most crucial field, aircraft production, it has been estimated that output declined from a record peak in August to an average of 1,700 planes in September-November.<sup>23-24</sup> Britain's plane losses are said to have been relatively small, at least in comparison with Axis losses, but its continuing inferiority to Germany in production has made defense of the urban areas exceedingly difficult. Britain's offensive operations have been hampered, moreover, by a serious shortage of bombers.

Britain's major industrial needs can be fulfilled only in the United States, although the British Empire, especially Canada, can furnish far greater assistance than in the World War. The Dominions and India are able not only to provide Britain with foodstuffs and raw materials, but are equipping their own armed forces to a large extent and thus relieving the strain on British production.

**FOOD.** Until recently, Britain's position regarding food supplies was probably better than in the World War, owing to increased agricultural production, large-scale storage, and strict rationing.<sup>25</sup> Although air raids have not seriously affected Britain's reserves, according to Lord Woolton, Minister of Food, transport difficulties have arisen from the loss of sources of supply in Northern Europe, the closing of the Mediterranean, and the accelerated submarine campaign.<sup>26</sup> Serious shortages have developed in specific foodstuffs, such as eggs, onions, fresh and dried fruits, green vegetables, and feedstuffs for poultry and cattle. On December 14 the weekly meat ration was reduced from 2s 2d to 1s 10d per person, and other restrictions were threatened—partly in order to divert shipping for the campaign against Italy.<sup>27-30</sup> Since large surpluses of foodstuffs, especially wheat, exist in the United States and the British Dominions, Britain's food problem is largely one of finance and shipping.

**SHIPS.** Britain's need of both merchant vessels and warships, probably second only to its need of airplanes, has become acute in recent months. Since the outbreak of hostilities, despite the immediate introduction of the convoy system, over 4,000,000 gross tons of British, allied and neutral ship-

ping have been destroyed, according to British official statements.<sup>31</sup> The average weekly sinkings in the second year of war have been as follows: British, 66,859 tons; allied and neutral 22,522 tons; total, 89,381. These figures show a marked increase over the average weekly losses of the first year of war: British, 30,997 tons; allied and neutral, 23,924 tons; total, 54,921 tons. During two weeks last autumn, moreover, the total merchant marine losses approached those of April 1917, which averaged over 200,000 tons weekly.

Moreover, World War experience indicates that over 1,000,000 tons of British shipping may be under repair at any given moment. This factor was probably of unusual importance in the first year of hostilities, when most of British and foreign merchant shipping had to be fitted out with armament. Air raids, moreover, increase both the damage to ships and the difficulties of repair.

Britain's shipping position is even more critical than this tabulation of losses would indicate. The British Empire entered the war with some 21,000,000 gross tons of shipping, but of this total only 18,500,000 tons represented seagoing vessels, many of which were essential to the commerce of individual Dominions. During the first year of war the shipping under direct British control showed a net gain of about 7,232,000 tons, giving the Empire a total of over 25,700,000 tons of seagoing vessels. Such figures are highly misleading, however, since a large proportion of the "net gain" represented ships already under direct or indirect British control, rather than new construction or captures from the enemy. Britain's losses from September 1939 through August 1940 occurred as follows: sunk by enemy action, 1,611,842 tons; normal marine losses and breakup of ships, 283,000 tons; transfers from merchant marine to Royal Navy, 134,000 tons; and detained in French ports, 70,000 tons; total, 2,098,842 tons.<sup>32</sup> Britain's gains in this period occurred as follows: new construction, 718,000 tons; captures, 265,000 tons; purchased, 384,000 tons; acquired from France and Denmark, 658,000 tons; acquired from Norway, the Netherlands, Belgium and Poland, 6,250,000 tons; chartered from neutrals, 750,000 tons; gained by transfers from Great Lakes shipping and alteration of individual ships, 305,000 tons; total, 9,330,000 tons.

31. Losses (in gross tons) to December 15, 1940: British, 2,614,725; allied and neutral, 1,581,860; total 4,196,585. Compiled from *New York Herald Tribune*, December 18, 1940. All figures are subject to frequent revision. German claims average three times as high as British admissions.

32. Compiled from Leslie Hore-Belisha, article in *The Washington Star*, December 1, 1940; *Fairplay*, November 7, 1940, p. 478; A. C. Hardy, mimeographed memorandum [no date] released through the Ministry of Information; and Admiralty statements published in the American press.

23-24. One source indicated a production of 1,800 planes in September, or double the rate of the preceding May. *The New York Times*, November 27, 1940.

25. Mr. Robert S. Hudson, Minister of Agriculture, in the House of Commons, October 22, 1940, *The New York Times*, October 23, 1940.

26. *The Times* (London), September 11, October 17, 1940.

27-30. *New York Herald Tribune*, December 3, 15, 1940.

During the period September-December 1940, when world shipping losses rose severely, Britain probably acquired an additional 150,000 tons in captures, as well as 1,350,000 tons through control of the Greek merchant marine. Only new construction in the British Isles, North America, and elsewhere, however, can offset the present rate of losses, now running at an annual rate of 3,500,000 tons for Britain, or 4,600,000 tons for British, allied and neutral countries. Germany's intensified submarine campaign compelled the Minister of Shipping, Mr. Ronald H. Cross, to admit on November 26, 1940 that Britain was no longer able to replace its maritime losses.<sup>33</sup> At the outbreak of war, Britain was reported to have had at least 800,000 tons of merchant shipping under construction. British shipyards, which constructed a record total of 2,056,000 tons in 1920 and reached 921,000 tons in 1937 and 1,030,000 tons in 1938, are probably maintaining a high rate of production despite air raids, although no statistics are available. A considerable proportion of British shipbuilding capacity, however, is now devoted to warships.

**WARSHIPS.** The seriousness of Britain's shipping position is enhanced by the inadequate number of flotilla craft available for anti-submarine and convoy duty, as well as for service with the battle fleet. While Britain's superiority over Germany in battle fleet strength is far greater than in the World War, the Royal Navy has approximately half the number of small warships for commerce protection that it had in 1914-18. According to informed sources, Britain possessed 170 destroyers at the end of November 1940—not including the 50 acquired from the United States—with 18 more under construction. To this total should be added about 70 escort vessels—lightly armed ships of around 1,000 tons with speeds of approximately 20 knots, built more rapidly and cheaply than destroyers, for the purpose of accompanying shipping in dangerous waters. When allowance is made for the destroyers stationed in the Mediterranean and at points still more distant from Britain, as well as for the high proportion undergoing repair or overhaul, it would appear that the number of British destroyers and escort ships available for use in the North Atlantic at any one moment does not exceed 200.<sup>34</sup> The high rate of British shipping losses indicates that this total is not sufficient. Many British convoys apparently have been forced to sail with dangerously inadequate protection. The following table offers a rough estimate of probable losses and accretions:

NAVAL STRENGTH OF THE BRITISH COMMONWEALTH

	Built at outbreak of war*	Losses to date	Probable present strength	
			Built	Building
Capital ships	15	1	14	9
Aircraft carriers	7	2	6	6
Cruisers	62	3**	61	23
Destroyers	178	33	170†	18
Submarines	55	21	46	4

\*From J. C. deWilde, D. H. Popper and Eunice Clark, *Handbook of the War* (Boston, Houghton Mifflin, 1939), p. 108.

\*\*Includes the *Curlew*, an anti-aircraft ship of 4,290 tons armed with 4-inch guns.

†Plus 50 from the United States.

**FINANCIAL NEEDS.** While the British government does not anticipate real difficulty in raising enough money by taxation and borrowing to defray the internal costs of the war, the Undersecretary of the British Treasury, Sir Frederick Phillips, formally applied to Washington in December 1940 for American help in meeting the external costs incurred as the result of heavy imports of war materials from non-British countries. Such imports must be paid for in foreign exchange, particularly in dollars. American exporters to Britain, for example, will not accept British sterling, but demand payment in their own currency. The British can acquire dollars or other foreign exchange needed to make such payments from several sources: (1) the sale of British goods abroad; (2) the sale of gold from existing reserves or from current production within the British Empire; (3) the income from foreign investments; and (4) the liquidation or sale of such investments abroad. In peace-time the British also obtained a considerable sum in foreign exchange by performing banking or other services for foreigners and by carrying foreign goods in British ships, but since the outbreak of the war these sources of income have virtually dried up. By requesting financial assistance from the United States, the British government presumably expressed the conviction that it could not rely on the remaining sources of income to provide sufficient foreign exchange to buy the necessary supplies and meet other obligations in this country.

How has Britain managed to defray its expenses in the United States up to the present? During the first year of the war the countries of the British Empire had to pay \$1,739,733,000 for imports from the United States. In addition, the British had to make down-payments on future deliveries and expend a substantial amount in financing the expansion of aircraft factories and other plants producing war material. Expenditures on these two accounts can be only roughly estimated at a total of perhaps from \$500,000,000 to \$1,000,000,000.

33. *The New York Times*, November 27, 1940.

34. Cf. Major George Fielding Eliot, *New York Herald Tribune*, December 8, 1940.

The obligations which the British had to meet in the United States, therefore, amounted to between \$2,239,733,000 and \$2,739,733,000. Of this amount, the British Empire paid \$1,045,371,593 through the sale of goods in the United States. According to estimates of the U.S. Treasury, Britain and Canada also paid, in part, by reducing their net banking and brokerage balances in the United States by \$171,600,000. About \$57,100,000 of this sum, however, was offset by the repatriation of American bank balances, primarily from London. Additional means of payment were obtained by selling \$193,300,000 of American securities, but Americans in turn liquidated Canadian and British securities valued at \$64,500,000.<sup>35</sup> After deducting the net proceeds of British exports and security and banking transactions, a balance of between \$951,061,407 and \$1,451,061,407 is left. This sum must have been paid from the proceeds of British Empire gold exports to the United States, which amounted to \$3,597,807,000 during the first year of the war. Some of these shipments were undoubtedly for the account of France, the Netherlands, Switzerland and the Scandinavian countries.

At the beginning of the second year, the British apparently still had substantial assets available for meeting their import surplus. British and Canadian dollar balances in the United States totaled approximately \$778,000,000, and holdings of United States stocks and bonds about \$1,042,000,000. Moreover, direct investments in controlled enterprises—such as mines, oil wells, factories and land, which were valued very roughly at \$1,460,000,000 at the start of the war—have probably not been liquidated to any great extent.<sup>36-39</sup> How much gold remains available for payments is not publicly known. In September and October 1940 further imports of this metal from the British Empire into the United States amounted to \$514,817,000. A considerable part of all gold imports, however, was probably sent here for safekeeping, rather than for immediate sale to discharge current obligations. It must be included in the \$1,775,600,000 of gold which was held by Federal Reserve Banks at the end of October 1940 under "earmark" for foreign account. While very little gold apparently remains in Britain, the bulk of that held in the United States for foreign account is generally believed to be British-owned. Moreover, the Empire has an annual gold production of \$750,000,000 which can be sold for dollar exchange.

The above figures, which are rough estimates

at best, must be interpreted with great caution. Large blocks of American securities could not, under present circumstances, be sold without demoralizing the stock and bond market. Direct investments are more difficult to liquidate, for each sale must be separately negotiated and purchasers cannot be readily found. The British, too, are naturally reluctant to sell their foreign investments on a large scale, because even in peacetime they have depended on income from this source to balance their international accounts. The British government, traditionally conservative in financial matters, probably fears that the sale of all or most of its gold holdings will ultimately impair the stability of the pound sterling. It may also be doubted that the United States, which already holds almost 80 per cent of the world's monetary gold reserves, will find it advantageous to absorb still more of this metal. Most important of all, the British must consider the obligations they will have to meet in the future. During the first two months (September-October) of the second war year the trade deficit of the principal British countries with the United States rose to a total of \$219,890,000. Britain will need more and more supplies from this country, while the task of producing for war will make it increasingly difficult for British industry to maintain the past volume of exports. Under these conditions it would not be surprising if the import surplus of the Empire exceeded \$2,000,000,000 during the second year of the war. Such a prospect is undoubtedly disturbing to the British, who must reckon with a war of several years' duration.<sup>40</sup>

MEN. In contrast to the World War, Britain has not yet required vast reserves of man power for its armies, but the offensive which Prime Minister Churchill has announced for 1942 and later may eventually alter this situation. According to recent statements, the British have some 1,500,000 in the Army, an additional 1,700,000 in the Home Guard, and several hundred thousand men in the Mediterranean theater.<sup>41</sup> Perhaps over 150,000 troops from Canada, Australia and New Zealand are garrisoned in the British Isles, Africa, India, and elsewhere.

With regard to man power, Britain's chief need thus far has been for pilots, gunners and observers,

40. In a somewhat different analysis of Britain's assets, Professor Seymour E. Harris concludes that "the situation should not become serious for the British until the latter part of 1941." Cf. his letter in *The New York Times*, December 22, 1940.

41. Cf. Hanson W. Baldwin, "The Winter War," *The New York Times*, October 18, 1940. According to Prime Minister Churchill, 1,000,000 men in the Home Guard are fully equipped with rifles and machine guns. *The Times*, November 6, 1940.

35. For a summary of these transactions, cf. *Bulletin of the Treasury Department*, November 1940, pp. 35-36.

36-39. For a table of British and Canadian investments in the United States on August 31, 1939, cf. *Federal Reserve Bulletin* December 1939, p. 1042.



as well as naval officers and other specialists.<sup>41a</sup> Although no statistics are available, it is generally believed that Britain was seriously handicapped by lack of pilots as well as planes during the August-September air battles. The Air Minister, Sir Archibald Sinclair, recently called for more men in the R.A.F., where enlistment age limits are comparatively high: pilots, 18-30; air observers, 18-32; wireless operator-gunners, 18-32.<sup>42</sup> Dominion aviators participated in the defense of London in August and September 1940, and the first graduates of the Commonwealth Air Training Plan in Canada arrived in Britain in late November.<sup>43</sup> The Plan, which eventually will turn out 10,000 to 20,000 pilots and auxiliaries annually, has been greatly speeded up, although handicapped by lack of instructors and equipment.

### WAR MATERIAL FOR BRITAIN

By what means and to what extent can the United States satisfy these British needs short of direct participation in the war? Fundamentally, our ability to furnish material aid depends on the rapidity with which we convert our peace-time economy to a war basis. Deliveries of vital supplies to Britain could be accelerated both by increasing production more rapidly and by allocating a greater part of the output to the British Empire. Either method demands continuous intervention and direction by our government.

According to many observers, the rate at which this country is mobilizing its resources for the manufacture of war material has been far too slow. In part this dissatisfaction can undoubtedly be traced to an inadequate appreciation of the problems involved in changing the direction of our economic efforts. The process of gearing any economy for war production is difficult and time-consuming, particularly in a country like the United States which has never had a well-developed munitions industry in peace time. Munitions factories cannot be built and equipped overnight. For example, the tank arsenal under construction by Chrysler will not be ready for production before the fall of 1941; and the Packard Motor Company will not be able to turn out Rolls-Royce plane engines on a considerable scale until next summer.

### MORE EFFECTIVE MOBILIZATION

Nevertheless, some steps undoubtedly can be taken to expedite the production of war supplies.

41a. The Admiralty recently called for more officers, announcing that it would give temporary commissions to specially qualified civilians and enlisted men up to 55 years of age. *New York Herald Tribune*, December 12, 1940.

42. *The Times*, November 7, 1940.

43. *The New York Times*, November 26, 1940.

The more important measures suggested in recent months are:

1. *Better coordination and more efficient direction.* Until recently the organization of our economic energies for the manufacture of munitions was supervised by the National Defense Advisory Commission, a body without real power or an executive head. Conflicts and differences, whether between the War and Navy Departments, between these Departments and the Commission, or among members of the Commission itself, could only be resolved by submission to the President, who was already overburdened by other duties and often did not have the requisite knowledge to decide the question at issue. Widespread criticism of this set-up led the President on December 20 to name a "super-defense" council endowed with broad powers to coordinate procurement and production of war material for our own defense program and British requirements.<sup>43a</sup> The council is directed by Mr. Knudsen, and also includes Mr. Hillman, labor member of the Defense Commission, and the Secretaries of War and Navy. Its efficacy will depend largely on the ability of the four members to cooperate. Some critics believe that the Commission itself must be reorganized, with subordinate organizations or councils, representative of labor and management, in charge of speeding up production in each defense industry.<sup>44</sup>

2. *Fuller utilization of the productive capacity of smaller plants.* British and American contracts have inevitably gone to the larger companies, which, in turn, have failed to make adequate use of small concerns as subcontractors. Many of these shops and factories have idle machine tools or other facilities capable of turning out part of the work. The Defense Commission has recognized the importance of this problem by appointing Donald M. Nelson, the Coordinator of National Defense Purchases, as Director of Small Business Activities. It may prove necessary to draw up without delay a regional and national inventory of all the subcontracting facilities available in every branch of industry manufacturing war material.

3. *More thoroughgoing application of priorities.* As yet, the government has not employed compulsory priorities which would give the British and our own armed services an unchallenged, first claim on the productive capacity of the country. In August the Commission adopted a voluntary system by asking the Army and Navy Munitions Board to draw up a number of preference classifications designed to indicate the order in which the defense departments wanted their contracts executed by industry. Although the President, by executive order of October 22, set up a Priorities Board and an Administrator of Priorities within the Defense Commission, and authorized this body to enforce priorities for defense contracts, the new Board has been reluctant to use its power. It has confined itself to the appointment of committees to give advice

43a. *Ibid.*, December 21, 1940.

44. Cf. the proposal by Philip Murray, President of the C.I.O., *ibid.*, December 19, 1940.



on coordination of production of commercial and military aircraft, and on administration of priorities in the machine tool industry. While voluntary priorities may be quite sufficient if supported by the threat of compulsion, they may have to be applied in a more systematic manner not only to the primary manufacturers of munitions but also to their subcontractors and even, ultimately, down the line to suppliers of raw materials.<sup>44a</sup> Although priorities may, if inefficiently administered, produce much confusion, they cannot be avoided if a speed-up in war production is considered urgent.

#### ALLOCATING PRODUCTION

Since the output of American munitions industries cannot, at best, be increased very rapidly, the United States can help Britain in the immediate future only by assigning to it a larger share of current production. One of the tasks of the Defense Commission has been to reconcile our own requirements with those of the British. President Roosevelt himself announced on November 8 a "rule of thumb" that deliveries of planes and war materials would, in general, be divided equally between the United States and Britain.<sup>45</sup> The application of this rule is expected to vary greatly. While our government, for example, has taken most of the training planes produced by American industry, Britain has received the bulk of the output of combat types.<sup>45a</sup> If Britain is our "first line of defense," we may find it advantageous to send it considerably more than half our output of munitions, particularly those types of arms and equipment which, like planes, can be reproduced in our plants within one or two years. On the whole, the future strength of the United States lies more in its capacity to produce war material than in the accumulation of large stocks of tanks, guns and planes which may quickly become obsolete. Training equipment, however, must be provided for our own army and air force.

Britain might obtain a larger proportion of our production if British orders, in some cases, were accorded priority over American contracts, and if our War and Navy Departments agreed to relinquish claim to delivery of part of the war material now being manufactured for them. Hitherto the system of voluntary priorities has not been applied to British contracts, although Washington has given manufacturers general instructions not to delay such orders. The first indication that British

requirements were being included in the priority system came with the appointment on November 12 of the Machine Tool Priority Commission, which received the task of coordinating "national defense, commercial and export demands" of that industry.<sup>46</sup> In a few instances Britain has already been given the right to delivery of arms made for our own forces. Thus, on November 20 General Marshall, Chief of Staff, announced that the Air Corps was releasing to Britain 26 four-engined heavy bombers (B-24's) scheduled for completion by the Consolidated Aircraft plant in the next few months; and on December 5 the War Department relinquished to the British its right to prior delivery of 20 Boeing "flying fortresses" (B-17-C).<sup>47</sup> This policy might be applied much more generally.

#### MORE PLANES?

Last summer the Defense Commission drew up a two-year production program which required the aircraft industry to manufacture, up to July 1942, about 26,000 planes for the United States Army and Navy, and 14,000 for the British. The original schedule, calling for a monthly output of 1,250 planes by January 1, 1941 and an ultimate total of 3,000 by the spring of 1942, proved too optimistic. Mr. Knudsen revealed on December 13 that even the revised goal of 1,000 planes a month by January 1, 1941 would have to be scaled down 30 per cent.<sup>48</sup> While the production of training craft and light combat planes is increasing rather rapidly, there is a serious lag in the manufacture of bombers, which Britain particularly needs. It has been estimated that only 97 bombers are scheduled for delivery to the American and British air forces during January 1941.<sup>49</sup> Under present circumstances, the aircraft factories can scarcely execute the orders for 12,000 additional planes which the Priorities Board permitted the British to place on November 8.

Expansion programs now under way will undoubtedly enable the British in time to get many more planes than they are now receiving. Ford is expected to begin turning out Pratt and Whitney engines in March or April 1941, and Packard will start manufacturing its liquid-cooled Rolls-Royce motors next summer. After many initial difficulties, the Allison Division of General Motors is at last producing considerable numbers of the liquid-cooled engine which powers the fast Curtiss P-40

44a. Under an order of December 15, 1940 the President authorized the Priorities Board of the Defense Commission to enforce priorities also on "deliveries of material" needed to carry out Army and Navy contracts. *Ibid.*, December 19, 1940.

45. *Ibid.*, November 9, 1940.

45a. In October 1940 more than 80 per cent of our combat plane production went to Britain. Cf. Hanson W. Baldwin, *ibid.*, November 22, 1940.

46. National Defense Advisory Commission, *Press Release 248*, November 12, 1940.

47. *The New York Times*, November 21, 1940; *New York World-Telegram*, December 5, 1940.

48. Cf. his speech before the National Association of Manufacturers, *The New York Times*, December 14, 1940.

49. *Ibid.*, December 13, 1940.

pursuit ship. Production in October amounted to 286, and will probably reach 1,000 a month in another year.<sup>50</sup> The airplane industry, as a whole, has construction and equipment programs which will double its productive floor space during 1941.<sup>51</sup>

Nevertheless, additional measures to accelerate production are urgently needed in view of the existing disparity between the output of British and German airplane factories. Until the new engine plants start producing, there will be a serious shortage of plane motors. This bottleneck can be partially overcome only if present engine manufacturers are induced to allow the many small machine shops with unutilized capacity to make parts for them. It has been suggested that a Director of Aircraft Production be appointed to help step up production.<sup>52</sup> At present Mr. Knudsen, assisted by only a small staff, handles the problems of many other industries in addition to aircraft, while in Britain Lord Beaverbrook heads a separate Ministry of Aircraft Production. In addition, the adoption of mass production might be greatly facilitated by standardization of plane output. There are still too many types of aircraft and too great a tendency to change specifications after production has begun. A committee, appointed by President Roosevelt on October 14,<sup>53</sup> is at present working to coordinate the design of planes ordered by Britain and the United States, but the reduction and standardization of types as a whole has been postponed until 1942, when the industry will have completed its current program of expansion.<sup>54</sup> Finally, greater progress in output might be made if the automobile industry were more fully mobilized for this purpose. At the suggestion of Mr. Knudsen, the Automotive Committee for Air Defense was organized on October 25 to explore the industry's facilities for the manufacture of plane parts and sub-assemblies. Automobile manufacturers are to produce parts for bombers which will be assembled in four plants to be constructed in the Middle West and operated by aircraft companies. Two of these will be located at Kansas City and will have a combined annual capacity of about 2,400 two-engine bombers. Sites for two others, with a capacity of 1,200 four-engine bombing planes, remain to be selected.<sup>55</sup> Pending completion of these plants, existing airplane factories might utilize the facilities of auto

and auto-accessory manufacturers more fully than in the past. While the Douglas Aircraft Company has placed orders with leading auto-body manufacturers for plane sub-assemblies, aircraft firms generally have been reluctant to call on the automobile industry for assistance.

#### MUNITIONS AND TOOLS

At least another half-year will pass before the United States can furnish increased quantities of such arms as tanks, explosives and shells. The British are said to have about 1,500 tanks on order in this country, but substantial deliveries are not expected before next summer.<sup>56</sup> A military explosives industry has been virtually non-existent in this country. While the War Department has awarded a number of contracts for the construction of explosives and shell-loading plants, these will not come into production until the last quarter of 1941. The substantial expansion now under way in the aluminum industry may enable the United States ultimately to supply this indispensable metal to British aircraft plants. Substantial deliveries in the near future, however, could probably be made only if the government curtailed output.

British and American factories depend on the machine tool industry to supply the master tools necessary for the production of armaments. In the face of heavy demands machine tool plants, which had an output of less than \$200,000,000 in 1939, are now producing at an annual rate of \$500,000,000. In the first ten months of 1940 they supplied Britain and Canada with \$99,471,000 worth of tools,<sup>57</sup> although the industry is running far behind on deliveries. The application of voluntary priorities has occasioned considerable confusion, because too many orders have received a high preferential rating. The Machine Tool Priority Committee appointed on November 12 is expected to review priority ratings and establish a new sequence for the most essential requirements. The automobile industry will probably have to forego its annual model change in 1941 in order to reserve machine tool capacity for British and American defense orders. Output may eventually be increased if an effort is made to reduce the number and simplify the types of machines now being made, and to farm out a larger portion of existing orders to allied industries. The supply of skilled labor, however, constitutes a serious bottleneck.

Although Britain has already bought considerable steel in the United States, it may require still larger quantities in the future if its own production is seriously impaired. Although the raw steel capac-

50. *New York Herald Tribune*, November 19, 1940.

51. Cf. statement by the Aeronautical Chamber of Commerce, *The New York Times*, December 6, 1940.

52. Cf. Walter Lippmann, *New York Herald Tribune*, November 30, 1940.

53. *The New York Times*, October 15, 1940.

54. *Aviation*, November 1940, p. 85.

55. *The New York Times*, December 7, 1940.

56. *Ibid.*, November 2, 1940.

57. *New York Herald Tribune*, December 5, 1940.

ity of the American steel industry is rated at 83 million net tons a year—an amount double that now controlled by Germany—doubt has arisen in some quarters concerning its ability to satisfy mounting American defense and civilian requirements as well as British orders. The industry is currently operating at an annual rate of over 78 million tons—which would seem to leave only a small margin. It must be remembered, however, that capacity can for a short time be pushed to 87 million tons, and that some of the present buying has taken place in anticipation of a possible shortage rather than because of existing needs. Even if civilian consumption reaches the peak attained in 1929 and 1937, there will probably still be enough capacity to take care of our own defense requirements and to maintain and even increase the current rate of export. If necessary, steel for non-essential purposes could be rationed and our exports limited to the British Empire and Latin America.

The United States can supply enough iron and steel as long as the British confine their purchases for the most part to semi-finished and non-alloy products in the form of pig iron, ingots, blooms, bars, plates and sheets. On the other hand, if Britain's steel-finishing capacity were seriously reduced by bombardment, or the demand were shifted to alloy steels, we would be hard-pressed to meet such new requirements. Although the capacity of our electric furnaces, which produce the five alloy steels, has been increased by 40 per cent in the last two years,<sup>58</sup> delivery on some current orders for alloy steel is not being promised before 5 to 6 months hence. Britain would also have great difficulty in obtaining such items as steel forgings and armor plate.

#### AID IN SHIPPING

There are many other American products which Britain could use in larger quantities provided it had an inexhaustible supply of dollar exchange and plenty of shipping facilities. The United States, for example, has a considerable surplus of agricultural commodities which could be made available at sacrifice prices. Included in these are products such as lard, tobacco, cotton and canned goods, which British Empire sources cannot furnish in sufficient quantities.<sup>59</sup> Such products simply cannot be moved without sufficient ships. In fact, the amount of available shipping space constitutes

the most serious limitation on Britain's ability to draw on the United States for vital supplies. Unless the United States can help break this major bottleneck, it will be of little use to increase production for Britain.

Among the ways in which we could help the British with additional shipping facilities, the following may be suggested:

1. *Construction of merchant ships in the United States for British account.* Although American shipyards are already strained to capacity and skilled labor is becoming scarce, this country, under similar circumstances, managed to expand its shipbuilding facilities with amazing rapidity during the first World War. Mass-production technique was applied to ship construction. Vessels were for the most part prefabricated in inland shops and then assembled in new and enormous yards, of which the most famous was built at Hog Island, Philadelphia.<sup>60</sup> After a preliminary survey, the British decided to employ a similar technique and signed a contract on December 19 for the construction of two shipyards in the United States. The initial order comprises 60 freighters, for which the machinery and parts will be furnished by American factories and shops. The first of these vessels, which will be of simple standardized design, without elaborate equipment, is to be completed by October 1, 1941, and the remaining ones within 18 months from the date of the contract.<sup>61</sup>

2. *The sale of American merchant vessels to the British.* As of December 20, 1940, the United States Maritime Commission still had in its laid-up fleet 47 old ships, aggregating 414,316 deadweight tons. Twenty-four of them, with a total deadweight tonnage of 205,830,<sup>61a</sup> have already been offered for unrestricted sale. The British can buy these vessels and the others, although they are compelled to offer high prices in competition against other bidders. While slow and in need of some reconditioning, such ships are still serviceable. Aside from the tonnage owned by the government, the British can probably still buy an equal or greater number of old ships from private American interests. During the first half of 1941, American yards will deliver 38 new freighters, 3 combined passenger and cargo ships, and one tanker, which have been ordered by the Maritime Commission for operation by private interests. The bulk of these will replace older vessels now in service which will then become available for sale. The British would unquestionably prefer to have the new and faster ships released to them. Since the Maritime Commission has already contracted with private companies to acquire and operate these vessels, they could hardly be sold to the British. The government does have the power to requisition them for national defense, but additional

58. Cf. statement by W. S. Tower, *The Iron Age*, October 17, 1940.

59. Cf. speech of J. B. Hutson, Deputy Commissioner of the Agricultural Division of the Defense Commission, National Defense Advisory Commission, *Press Release* 285, December 3, 1940.

60. Cf. Edward N. Hurley, *The Bridge to France* (Philadelphia, Lippincott, 1927), *passim*.

61. *The New York Times*, December 20, 21, 1940.

61a. Excluding the old *George Washington*, a passenger ship of 23,788 gross tons.



legislative authorization would probably be needed to turn them over to Britain.

3. *The seizure of idle foreign tonnage in American ports for the benefit of the British.* About 100 merchant vessels belonging to the Axis powers, or formerly independent countries now under the control of Germany and the Soviet Union, are more or less permanently tied up in American ports.<sup>62</sup> It is doubtful, however, that the President has the power to requisition these ships except under the right of angary, which applies only in wartime. Under the so-called Espionage Act of June 15, 1917 the Secretary of the Treasury may, after the proclamation of a "national emergency" by the President, "take full possession and control" of any foreign or domestic vessels in the territorial waters of the United States whenever such action is "necessary in his opinion to secure such vessels from damage or injury, or to prevent damages or injury to any harbors or waters of the United States, or to secure the observance of the rights and obligations of the United States."<sup>63</sup> Although it would be difficult to justify the seizure of laid-up vessels for any of these specific objectives, the mere threat of such action may prove sufficient to induce Danish operators, for example, to sell their idle ships to British or American interests.<sup>63a</sup>

4. *Repeal of those provisions of the Neutrality Act of 1939 which forbid American vessels to enter the combat zone.* Restrictions in the Neutrality Act originally compelled the withdrawal of more than 500,000 gross tons of American shipping from trade with Great Britain and near-by ports on the European continent.<sup>64</sup> Removal of this prohibition would not necessarily provide the British with a net addition of 500,000 tons of shipping. In their present employment some of these American vessels, to a certain extent, carry British goods in trade with Africa, South America and the Far East. Moreover, it must be realized that if American shipping were readmitted to the war zone, it would run the danger of attack by German submarines and aircraft. Should such attacks occur, they might excite public opinion sufficiently to provoke open war between this country and Germany. As an alternative, the United States might, through the agency of the Maritime Commission, conclude a formal shipping pool with the British whereby American vessels could take over freight services in non-combat zones, thus relieving British ships for the transportation of goods across the Atlantic.<sup>65</sup>

62. Of these, 27 are Italian and 2 German ships. Some 9 or 10 fly the flag of the Baltic countries absorbed by Russia. Outside the *Normandie*, the French have 17 vessels here, aggregating about 100,000 gross tons. The largest number—41, totaling approximately 150,000 gross tons—are under the Danish flag.

63. Title II, section 1, 40 *U.S. Stat. at Large*, 217.

63a. Cf. *The New York Times*, December 19, 1940.

64. Cf. John C. deWilde, "The War and American Shipping," *Foreign Policy Reports*, April 1, 1940.

65. This suggestion has been included in a new statement of policy issued on November 25 by the Committee to Defend America by Aiding the Allies. Cf. *The New York Times*, November 26, 1940.

#### NAVAL AID TO BRITAIN

Whether or not American merchant vessels are permitted to enter the present war zones under the American flag, additional American naval support would, if extended, ease the heavy burden now shouldered by the British fleet. Such assistance might assume a number of different forms

1. *Transfer of additional destroyers.* It has been suggested that a second increment of 50 to 100 reconditioned World War destroyers be turned over to Britain, for anti-submarine and convoy duty on the sea routes leading to the British Isles. Despite the destroyer transaction of September 2, 1940, the United States Navy is still relatively well supplied with this type of vessel, principally as a result of its foresight in preserving about 170 ships turned out during and immediately after the last great war. On November 1, 1940 the Navy had in commission 159 destroyers, including 75 of the World War types, while 44 additional World War destroyers either had been or were being reconditioned and converted into sea-plane tenders, transports and minesweepers.<sup>66</sup> But certain obstacles stand in the way of the transfer of large numbers of naval vessels to Britain. It is difficult for the British to obtain crews to man them. American naval officers are said to be strenuously opposed to the release of further ships, on the ground that it would tend to destroy the balanced character of the fleet and weaken America's sea defenses. This objection would hold for all types of naval vessels except, possibly, the small "mosquito" craft, whose sale to Britain was blocked by the Senate Naval Affairs Committee in June 1940.<sup>67</sup> If Congress could be induced to alter existing legislation, the Navy might now consummate the transaction, which involved 11 motor torpedo boats and 12 motor submarine chasers then being built from British specifications for experimental use in harbor defense here.<sup>68</sup>

2. *Utilization of the Pan-American neutrality patrol.* Instead of transferring naval vessels to the British, the United States government might permit its own ships to participate in the task of ridding the seas of German submarines and cruisers. This might be accomplished by a revival of the United States' historic insistence on the freedom of the seas, abandoned by the provisions of the neutrality acts. President Roosevelt may have foreshadowed such a de-

66. A.P. dispatch, *New York World-Telegram*, November 29, 1940. On the same date 166 new destroyers were under construction or scheduled for construction under the "two-ocean" navy program. On December 17 it was announced that the Navy Department had signed contracts for 40 more destroyers, increasing to 365 the number afloat or projected. *The New York Times*, December 18, 1940. Ultimately, this huge destroyer fleet may be of vital assistance to the British.

67. Statement of Senator Walsh, *Congressional Record*, June 21, 1940, pp. 13315 ff; *The New York Times*, June 25, 1940.

68. Cf. Herbert W. Briggs, "Neglected Aspects of the Destroyer Deal," *American Journal of International Law* (Washington), pp. 569 ff.; Opinion of the Attorney General, August 27, 1940, *ibid.*, pp. 734-36.



velopment in his statement, on October 12, 1940, that: "when we speak of defending this Western Hemisphere, we are speaking not only of the territory of North and Central and South America and the immediately adjacent islands. We include the right to the peaceful use of the Atlantic Ocean and of the Pacific Ocean. . . . Defense of these oceans of the Western Hemisphere against acts of aggression is the first factor in the defense and protection of our own territorial integrity."<sup>69</sup> As the starting-point in the gradual revitalization of this concept, the Navy's neutrality patrol—which is now maintaining continuous vigil in a zone extending several hundred miles out to sea between the Canadian border and the southern edge of the Caribbean—might be entrusted with something more than its present function of merely seeking information.<sup>70</sup> If it were ordered to assure "peaceful use" of these waters, British naval vessels on patrol there would be freed for other duties.<sup>71</sup> Extension of the field of American operations to Pan-American neutrality zone areas off the South American coast would be of even more assistance to the British, although great difficulty would be caused by the lack of available bases unless the cooperation of South American nations were secured.<sup>72</sup> An effective American patrol of the neutrality zone would be directed primarily against destructive commerce raiders of the type of the *Graf Spee* and the disguised cruiser which damaged the British *Carnarvon Castle* on December 5, 1940. While American patrol craft may already be furnishing information to the British regarding the movements of German and Italian merchant ships which venture out of neutral Latin American harbors, they might also apprehend any vessels suspected of proceeding to a rendezvous to provision and refuel a German commerce raider.

3. *Use of American warcraft as convoy escorts.* While these measures would reduce the pressure on the British Navy, the growing intensity of the attacks on North Atlantic convoys may lead to the direct employment of our warships on the sea lanes between this country and the British Isles. It has been proposed that American naval craft serve as escort and patrol vessels in the waters off eastern Canada and Newfoundland, perhaps under the aegis of the Permanent Joint Canadian-American Defense Board. The move could be justified as an amplification of the neutrality zone concept, and would permit the British to concentrate their own activities exclusively on the last leg of the eastbound passage. Some sources suggest that the area protected by the American Navy

extend 600 miles seaward from Newfoundland; others, that the war zone established under the Neutrality Act be revised to exclude neutral Ireland, with American ships guarding merchant convoys all the way to Irish ports.<sup>73</sup> Should proposals of this type be adopted, responsibility for their execution would probably be lodged in the first instance with the American Patrol Force (formerly the Atlantic Squadron) of about 125 vessels, including three old battle-ships and an undisclosed number of aircraft carriers, cruisers, destroyers, submarines and auxiliaries, in addition to naval patrol planes.<sup>74</sup> A few ships might be transferred from the battle fleet in the Pacific, but naval officers would be loath to weaken this fighting force unless the emergency in the Atlantic became acute. By its presence at Hawaii, the battle fleet serves as a check on Japanese aggression against the British and Dutch colonial possessions of Southeast Asia. Some of its units might eventually be based on Singapore and Surabaya, possibly releasing certain Anglo-Dutch forces for duty in other theaters of war.

It is scarcely necessary to add that direct protection of shipping by American naval forces entails serious risk of battle with German warcraft, and hence of involvement in the conflict. Yet both sides, having little to gain by formal hostilities, might conceivably give tacit sanction to a status of quasi-belligerency which could limit for a time the liabilities assumed by each.

#### EMPLOYMENT OF AMERICAN MAN POWER

Since the trench warfare and frontal mass attacks which characterized the last war are absent in this one, destruction of life on the battlefield has been relatively small, except during the brief periods of the German *Blitzkrieg*. The immediate British need is not, therefore, for man power to replenish the depleted ranks of an army, but for specialists to carry on the combat in the air and on the oceans. Additional troops could, of course, be used in the Eastern Mediterranean, in outlying garrisons, and in an eventual offensive against Germany on the European continent.

1. *Seamen for merchant vessels.* In the event that a large portion of the American merchant marine were made available for British use, American seamen might be required to man vessels sailing to British ports. Before American nationals could operate these, it would be necessary to modify or repeal sections 3 and 5 of the Neutrality Act of 1939 prohibiting American citizens from proceeding into or through a combat area, or travelling on belligerent vessels.<sup>75</sup>

69. Address at Dayton, Ohio, *The New York Times*, October 13, 1940. Mr. Roosevelt cited the "quasi-war" of 1798 against European privateers in the West Indies.

70. Under the Declaration of Panama, October 3, 1939. For full text of declaration, cf. *Report on the Meeting of the Ministers of Foreign Affairs of the American Republics, Panama, September 23-October 3, 1939* (Washington, Pan American Union, 1939), Congress and Conference Series, No. 29, pp. 19-21.

71. Cf. Arthur Krock, *The New York Times*, November 24, 1940.

72. Uruguayan cooperation was secured in 1917.

73. G. F. Eliot, *New York Herald Tribune*, November 10, 1940; Professor W. Y. Elliott, *The New York Times*, December 8, 1940.

74. Cf. Harold B. Hinton, *The New York Times*, December 1, 1940.

75. Public Resolution No. 54, 76th Congress. The President may, by proclamation, alter the boundaries of the combat area as well as the rules and regulations by which he is empowered

Even if this were done, there might be difficulty in obtaining crews. The National Maritime Union, which dominates the situation on the Atlantic seaboard, is one of the "Left-wing" unions of the C.I.O. and as such might be expected to assume a non-interventionist position critical of the employment of American seamen in dangerous waters. The licensed or officer personnel is separately organized.

2. *Naval personnel.* The British would appear to have little need for untrained men who might volunteer for duty, since the navy has always been a popular service in Britain and the conscription mechanism can produce all the man power now necessary to man the fleet. Reservists have been used to fill the ranks of officers and men. Trained American personnel could not easily be accommodated to British methods and is, in any case, in great demand in the United States, where recruiting is being intensified and naval reservists have been called to active duty in order to provide crews for new ships.

3. *Airplane pilots.* Until the Empire air training scheme now in operation in Canada produces its full complement of finished pilots and other flying personnel, Britain will continue to suffer from a shortage of aviators. While individual volunteers from the United States may ameliorate the situation to some degree, no important results are to be expected from unorganized infiltration into the British forces. A group of Americans known as the Eagle Squadron is now in an advanced stage of training in Britain, and it is reported that about 7 per cent of the air crews being turned out in Canada consist of American citizens.<sup>76</sup> Americans have also been employed as instructors in the Dominion and as ferry pilots to fly new bombers across the Atlantic. A few others are receiving pilot training for the Canadian government in civilian schools in the southern portion of the United States, where relatively good weather conditions prevail at all seasons; and Canadians may ultimately undergo the earlier stages of aviation instruction, prior to the specialized combat training phase, at American centers.<sup>77</sup> But both the Army and the Navy of the United States, now engaged in rapid expansion of their own air components, will necessarily tend to monopolize the limited number of young men physically and mentally fit for service in the air. In the Army, for example, the original 1940 program provided for the procurement of 2,400 pilots in two years, while the present objective has been fixed at 12,000 pilots a year. At the moment, a high proportion of newly trained men are themselves becoming

to make exceptions to the blanket prohibitions. It is believed, however, that Congressional action would be essential for such substantial changes as those considered in this report.

76. P. J. Philip. *The New York Times*, December 1, 1940.

77. *New York Herald Tribune*, December 4, 1940.

78. For details, cf. U.S. 76th Congress, 3d session, *Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, on the Third Supplemental National Defense Appropriation Bill for 1941* (Washington, 1940), pp. 37, 90 ff; *The New York Times*, November 22, 1940. There are now approximately 4,000 Army pilots.

instructors to fill an acute shortage, so that the Army's goal cannot be achieved for many months to come.<sup>78</sup> A similar situation exists in the Navy, but to a lesser degree.

4. *Volunteers for Army Service.* Although it is impossible to estimate their number, there is no doubt that many Americans have crossed the border to Canada for enlistment in the British Army. Under legislation passed in October 1940, it is possible for Americans serving in foreign military forces to retain their American nationality provided they do not take an oath of allegiance to a foreign country or acquire its nationality.<sup>79</sup> In view of the American conscription program and the expansion of our armed forces, however, the number of volunteers for service with Britain seems destined to remain small. The German and Italian practice of dispatching large forces of "tourists" or "volunteers" to participate in hostilities without directly compromising the country from which they are sent is obviously not feasible in the United States or any other democracy. Nor is it likely that American law will be altered to permit open recruiting for the British forces in this country.

#### FINANCIAL ASSISTANCE

Britain's purchases in the United States are obviously limited by its ability to acquire dollars for payment. While British countries still have substantial foreign assets which could theoretically be liquidated, they are likely to be cautious in selling such assets as long as there is no assurance that they will be able to obtain financial aid when their own resources approach exhaustion.

Existing restrictions make the extension of any financial aid to Britain or Canada difficult. Outright gifts could hardly be made without Congressional approval, while loans and credits appear to be partly or wholly prohibited by the Johnson Act of April 13, 1934<sup>80</sup> and the Neutrality Act of November 4, 1939.<sup>81</sup> The Johnson Act forbids "any person" to extend loans or credits in any form to foreign governments or their political subdivisions which have defaulted in whole or in part on their obligations to the United States government. It applies therefore to Britain, which

79. Cf. U.S. 76th Congress, 3d session, *Senate Report No. 2150 on H.R. 9980; Congressional Record*, September 23, 1940, pp. 18816-18; *ibid.*, October 4, 1940, pp. 1983 ff; Public Law No. 853. Except for persons having dual nationality, this new revision and codification of the American nationality laws does not expressly alter the former status in this respect. But it is interesting to note that the new law, by permitting the practice of volunteering for foreign armed forces without taking the oath of allegiance, sanctions the validity of a practice which the State Department went to great lengths to discourage during the Spanish Civil War. Cf. Norman J. Padelford, *International Law and Diplomacy in the Spanish Civil Strife* (New York, Macmillan, 1939), pp. 184-87.

80. 48 Stat. 574.

81. For text of the act (*Public Resolution No. 54*, 76th Congress, 2d session), cf. David H. Popper, "American Neutrality and Maritime Rights," *Foreign Policy Reports*, January 1, 1940.

has defaulted on its war debt payments, but not to Canada and other British Dominions. The Neutrality Act, however, prohibits loans and credits to all countries stated to be at war by proclamation of the President, and is thus applicable to the entire British Empire. While neither law bars credits to persons or firms not acting on behalf of their governments, the Neutrality Act does forbid the sale on credit of arms, ammunition and implements of war to any person whatever in a belligerent country. The Johnson Act, unlike the neutrality law, specifically exempts government corporations (like the RFC or the Export-Import Bank) from its restrictions,<sup>82</sup> but both the Secretary of the Treasury and the Federal Loan Administrator have taken the position that no loans can be made without the consent of Congress.<sup>83</sup>

If Congressional action can be obtained, financial help for the British might take any of the following forms:

1. *Private or governmental loans.* While repeal of the Neutrality Act might enable the Canadian government to float a loan in the United States, it is doubtful that Britain could obtain loans or credits from private sources except, perhaps, against the pledge of American securities or other sound assets as collateral. The burden of making the loans would, in the end, probably fall on the United States government or its agencies, such as the RFC. Such loans might be made with British assets in this country as collateral, or against the pledge of the future gold output of the British Empire. Loans without any security could, of course, also be made.

2. *Purchase of British possessions in the Western Hemisphere.* The United States has already acquired strategic bases in these possessions without assuming the economic and political liability of ruling them, and the extension of American sovereignty in this Hemisphere might also revive the fear in Latin American countries that the United States is intent on imperialist expansion.

3. *Purchase of British assets in this country and in Latin America.* Instead of lending money against collateral, the RFC, for example, might buy outright, for subsequent sale to private investors, such assets as the British still have in the Western Hemisphere.

4. *Purchase of sterling.* The Treasury might be authorized to utilize its \$2,000,000,000 stabilization fund for this purpose. Under such an arrangement

82. Although Senator Pittman had declared that government corporations were not exempt from the Neutrality Act in the opinion of its sponsors, the Senate rejected an amendment which would have specifically made it illegal for such organizations, or the government itself, to extend credits to belligerents. Cf. Popper, "American Neutrality and Maritime Rights," cited, p. 250.

83. Cf. *The New York Times*, December 12 and 13 1940. Mr. Jones cited the Neutrality Act, and Mr. Morgenthau the Johnson Act, in support of this stand.

American exporters might agree to accept sterling in payment for war supplies on the understanding that the United States Treasury would either buy these sterling bills or finance them until they could be freely converted into dollars. A precedent for action of this type was established on November 30, 1940, when the Treasury set aside \$50,000,000 for stabilization purchases of the Chinese yuan. On December 5 an equal sum was made available to bolster the Argentine peso.

5. *Appropriation of money as an outright gift to the British.* Such action has recently been recommended by Mrs. Franklin D. Roosevelt and Alfred M. Landon, among others.<sup>84</sup> Proceeding on the assumption that Britain is America's "first line of defense," advocates of this course are convinced that the United States should "give," rather than "sell," its assistance. They believe that a gift of several billion dollars, which might enable Britain to win the war, would represent a profitable form of "insurance" against attack and might ultimately save us much more in appropriations for national defense.

6. *Loans of equipment and other war supplies instead of money.* Under this plan, advanced by the President on December 17, the United States would itself finance the manufacture of munitions in this country for the British Empire and "lend" the resulting products to Britain. Upon the conclusion of the war, the British would then be obliged to return or replace the "borrowed" material.<sup>84a</sup> Repayment could obviously be effected only if Britain were victorious. Moreover, the United States might prefer repayment in the form of peace-time products rather than armaments.

## CONCLUSION

The American public is overwhelmingly in favor of the British cause, and a substantial portion of it desires to help Britain by all the methods at its command.<sup>85</sup> Yet neither the seriousness of Britain's situation nor the drastic steps necessary to ameliorate it appear to be generally appreciated. German air raids and sea warfare are slowly but surely undermining Britain's productive power and hence, in the long run, its morale and fighting strength. While definite information regarding the effect of air raids on British war industries is not available, it is clear that production in many industrial areas has been slowed down. There is consequently little prospect that Britain may achieve superiority over Germany in airplanes and other weapons. Meanwhile, losses to convoys in the Atlantic have risen to an alarming level, necessitat-

84. Cf. *ibid.*, December 13, 17, 1940; also the letter of James P. Warburg, *ibid.*, December 13, 1940.

84a. *Ibid.*, December 18, 1940.

85. Cf. American Institute of Public Opinion Poll, *The New York Times*, November 17, 1940.



ing stringent food rationing to conserve tonnage for other imported products. Although Britain has by no means reached the end of its financial resources, the constant drain on its more liquid assets has impelled the Churchill government to seek financial assistance in Washington. Finally, Britain is confronted by a pressing shortage of naval vessels and certain types of trained personnel. Some of these factors will assume crucial importance in the immediate future.

It is clear that only the United States, the single great industrial power outside Europe, can furnish assistance on the scale required by Britain. This country has already given a considerable measure of material aid, so far in return for payments in cash or other advantages. It has allocated some of its facilities for manufacturing aircraft, machine tools and other products to meet British requirements. It has dipped into its own military reserves to send guns, planes and destroyers overseas. Cargo vessels have been sold to the British with the approval of the Maritime Commission. But in view of the prospect of a crisis in Britain's struggle within the next six months, the American contribution has hitherto been far from adequate to meet the British needs.

Whether we shall attempt to swing the balance in Europe, cost what it may, depends on the attitude of the country and the competence of the Administration. If it is felt that Britain constitutes America's first line of defense and that it is imperative to secure a British victory, far-reaching measures must be adopted quickly. The first essential would be authoritative determination of the types and proportion of our production of munitions and machine tools, now inadequate, to be exported to Britain, and the proportion to be reserved for the needs of our own defense forces. To expand output most rapidly, the American economy would then have to be subjected to purposeful direction from above, in all its aspects. Military production would receive preference over civilian needs wherever the two clash. Priorities would be imposed; all available labor and plants would be utilized to the full, no matter what the obstacles; and bottlenecks would be removed by strenuous action. The President would be com-

pelled to exercise his sweeping emergency authority—contained in numerous laws—to regulate the national economy, with Congress rounding out the federal government's power by additional legislation wherever necessary. Full industrial mobilization would be required.<sup>86</sup> All financial limitations would be swept away, and the sea lanes to Britain kept open, even if it were necessary to assign American vessels to convoy duty. The United States, in short, would accept organization on something closely akin to a wartime basis.

This course undoubtedly involves the risk of war, which could be precipitated through hostile German reaction as well as by the decision of the United States. A large section of American public opinion therefore strongly opposes extraordinary sacrifices for the purpose of giving aid to Britain. Some observers believe that a deliberate attempt is being made to push the United States into the conflict; others, that the continuance of present trends will inevitably produce that result, whatever the intentions of American officials.<sup>87</sup> While they are willing to fight in defense of the territorial integrity of the United States or the Western Hemisphere, the opponents of Administration policy contend that participation in a European war will prolong the struggle with disastrous effects. At the same time, they insist that democratic government will be subjected to unprecedented stress by a regimented national effort here.<sup>88</sup> Many others maintain that Britain's war aims are not sufficiently clear to justify the risks inherent in further assistance, and are opposed to efforts which they feel will merely preserve the British colonial empire.<sup>89</sup> To them it is inconceivable that even a completely victorious Germany would be able to attack the United States without years of effort, during which we should likewise be rearming—provided we do not repeatedly strip American forces of equipment in order to ship it to Britain.<sup>90</sup> American efforts, it is felt, should therefore be directed, first, to the conclusion of a negotiated peace.<sup>91</sup>

It is for the American people to determine how far these considerations are to influence the policies of their government.

86. On the need for full mobilization, cf. statement of Princeton educators, *The New York Times*, December 16, 1940; for compilations of the President's emergency powers, cf. *Congressional Record*, October 25, 1939, pp. 1463-65; *Senate Document No. 133*, 76th Congress, 2d Session.

87. Cf. statements of Senator Hiram Johnson, *The New York Times*, December 5, 1940; John T. Flynn, *Christian Science Monitor*, December 19, 1940; Verne Marshall, *The New York Times*, December 19, 1940.

88. Cf. address of Philip F. LaFollette, *New York Herald Tribune*, December 19, 1940; and of Colonel Charles A. Lindbergh, *Vital Speeches* (New York), November 1, 1940, pp. 42-43.

89. *Christian Century* (Chicago), December 18, 1940, p. 1575; November 6, 1940, p. 1365.

90. Address of General Robert E. Wood, *Vital Speeches*, December 15, 1940, pp. 129-33.

91. Statements of Senator Millard E. Tydings, *New York Herald Tribune*, December 25, 1940; Senator Burton K. Wheeler, *ibid.*, December 26, 1940; speech of Herbert Hoover, *Vital Speeches*, November 15, 1940, pp. 93-95.

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